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How to Make Entertainment and Media Businesses “Fan”-tastic

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BY CHRISTOPHER VOLLMER

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Illustration by Lars Leetaru

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To promote *Mr. Robot,* a dystopian video series about hacker culture on the USA Network starring Christian Slater, NBCUniversal recognized it needed a new playbook for audience development that went well beyond linear TV. To forge a passionate following of tech-savvy millennials, it created original content for Facebook Live, Reddit, Snapchat, YouTube, and Twitch, Amazon's platform for gamers. The network also developed a virtual reality simulcast for San Diego Comic-Con 2016, and created a *Mr. Robot* experience in a Manhattan storefront where visitors could "hack" an Evil Corp ATM machine. What did these efforts have in common? They all encouraged *Mr. Robot* viewers to stay connected with storylines and characters in the environments where viewers desired that emotional and social connectivity. These experiences thus turned viewers into fans, and fans into zealots.

An entertainment and media (E&M) offering today simply cannot thrive without the economic, social, and emotional power of fans. Devoted followers are as critical to feature films, video games, and sports teams as they are to *Mr. Robot.* Premium content is expensive, and getting more so. Distribution is a brutal battle for shelf space where only brands that are "most wanted" can hope to win. The steady march of digital technology has ushered in a direct-to-consumer environment characterized by greater choice and user control. There is simply too much competition for users to allow E&M businesses to survive on experiences that cater to casual "eyeballs" or infrequent users.

In today's hypercompetitive landscape, entertainment and media businesses designed around and for fans command multiple strategic advantages. They know more about who their users are, what they want, and how and where to deliver it. Fans spend more per capita and are less likely to churn. Today's fans recruit tomorrow's.

To regularly make the kind of transition exemplified by NBCUniversal's *Mr. Robot,* E&M companies need to orient themselves around fans. They need capabilities that help them operate in new, more flexible ways across content, distribution, and user experience. They must become fan-centric. The good news is that they can accomplish all these objectives by focusing on five key functions: user/fan insight, content and experiences, distribution, monetization, and operations.

User/Fan Insight

As user behaviors rapidly evolve and consumption occurs across an ever-expanding universe of distribution environments and platforms, companies with the deepest, most direct insight into their fans have a decisive advantage. Unfortunately, too many large E&M companies remain focused on analyzing outputs such as ratings, unique visitors, and time spent rather than drilling into the functional, emotional, and social behaviors that translate into fandom for their brands. And although most companies sit on a treasure trove of first-party data, few have organized their people, processes, and technology to mine those insights into fan preferences at the necessary operational scale.

It is not surprising that fan insight capabilities have evolved most quickly in the music industry. In the pre-digital era, top artists such as the Beatles and the Grateful Dead recognized the value of interacting directly with fans and creating fan communities (the Beatlemaniacs and the Dead Heads, for example). Through their fan clubs, these bands learned about who their fans were, what they liked, and where they lived. This continued focus helps explain why contemporary artists such as Taylor Swift and Beyoncé have been so successful in leveraging social media to crack the code for fan development and fan activation.

Global music services such as Spotify show what is possible when fan insight capabilities are more fully realized. Spotify has a database of more than 100 million users, including 50 million paid subscribers, which provides information about any artist's listeners. The Spotify Fan Insights service enables artists to sort through listening data and to zero in on their heavy listeners and sharers (i.e., their fans) versus their more casual consumers. Then they can start building a more powerful fan base.

Development of these powerful insight capabilities does not happen overnight. Since 2014, Spotify has purchased three companies (the Echo Nest, Seed Scientific, and Preact) to bolster its analytics capabilities and help it better understand how casual users can morph into higher-value fans (subscribers).

Content and Experiences

For many consumer entertainment and media businesses, avid or loyal fans — who typically represent 10 to 20 percent of a franchise's user base — can drive 80 percent or more of that franchise's overall business value. Content efforts therefore must prioritize initiatives aimed at super-serving them — deepening engagement with avid fans and simultaneously extending the brands and franchises associated with these passionate fans into new areas.

Avid fans cannot get enough of the content they love. They binge on it. They share it. They talk and post about it. They create more of it. They might watch *The Americans,* a spy drama on FX, and then listen to Slate's podcast about each episode. Avid fans will seek out content-fueled interactions across a diversity of experiences, provided those interactions ignite and fuel their emotional connection with, say, a sports team, a film, or a video game. For many fans, the quality of these experiences is further amplified when it translates into social connections; fan-to-fan relationships; and active communities united by shared passions, values, and interests.

In recent years, the National Football League has placed growing strategic emphasis on its own media assets, including the NFL Network, a 24/7 pay-TV network that has become a US$1 billion business. Providing blanket coverage of events such as the draft and the NFL combine, the NFL Network enables fans to indulge their passion for football year round. The NFL's RedZone pay-TV channel, which allows fans to watch the most exciting plays of every game, further feeds the voracious appetites of fantasy football aficionados who follow players on multiple teams. These committed fans now have more football to consume than ever before, they are watching more and spending more, and they are more engaged.

The New York Times Company's "subscription-first" growth strategy is aimed at expanding its roster of subscribers from the current 3 million to 10 million. In effect, this is a fan-first strategy. It emphasizes super-serving users who are regular readers and most willing to pay for a print or digital subscription and who create the most value for advertisers.

Distribution

As user behavior and content consumption — especially among younger users — trend more toward social media, mobile devices, and streaming, E&M companies have to adapt to ensure they are building and strengthening their fan bases. For many players, this means developing powerful owned and operated showcase destinations, and designing experiences on partner platforms that grow and deepen the fan base.

E&M companies can take some pointers from luxury brands. The products of Burberry can be found at such global retailers as Saks Fifth Avenue, Harrods, and KaDeWe. However, the fully expressed world of Burberry can be experienced only at the company's global flagship store in London, Burberry Regent Street. At Burberry Regent Street, which opened in 2012, consumers can shop the company's full lines for men, women, and children. The store also curates events featuring new creators in music, film, theater, and art. Burberry has used Regent Street to pilot innovations, including interactive displays and mobile apps that deliver in-store notifications and offers.

This “showcase” approach to owned distribution is relevant for entertainment and media brands that, like Burberry, possess a critical mass of passionate fans who will reward the richest, deepest experience with their time and money. The WWE Network, World Wrestling Entertainment’s subscription video on demand (SVOD) product, with 1.5 million subscribers, is a compelling illustration of how a media company can add a premium distribution platform to its arsenal while furthering relationships with distribution partners such as NBCUniversal, Facebook, and YouTube. This service has become WWE’s preferred home for popular pay-per-view events such as WrestleMania, along with new series including *205 Live* and *WWE Fastlane* as well as archival content. The WWE network is now the second-largest specialty SVOD network, after Major League Baseball’s MLB.TV.

Even the largest, most well-regarded E&M content brands need the distribution scale that third parties can generate. Companies should thoughtfully select distribution partners that can create robust fan value versus lower-value eyeballs. The distribution partner needs to deliver concentrated reach efficiently in terms of either avid fans (therefore resulting in incremental engagement) or convertible fans (casual users who can be cultivated into avid fans). The partner ideally also shares information on users and fans to help further inform business as well as creative decision making.

As noted, with *Mr. Robot,* NBCUniversal’s USA Network has strategically expanded its digital distribution roster to add platforms including Amazon’s Twitch, Facebook Live, and Reddit. For shows with broader fan bases, NBCUniversal has relied on partnerships with players such as Verizon’s AOL to post video clips from shows including *The Blacklist, Saturday Night Live,* and *The Tonight Show* on the AOL On video network.

Monetization

Companies that build fan bases have to be able to capture their premium value effectively. Given that fans engage across many properties and feel increasingly skittish when content and advertising are out of context, E&M companies have to become more sophisticated with respect to data, segmentation and measurement, and technology to succeed commercially. Selling fans, after all, has different requirements than selling eyeballs. Companies must develop sales structures, processes, and decision rights that extend not only across a company’s entire portfolio, but also into business partners’ properties. Sales teams need to know how to translate the factors that drive relevance and emotional connection with their fans into compelling “fit-for-purpose” solutions for their marketing customers. Finally, sales teams must ensure that their advertising and promotional efforts amplify the quality and intensity of a fan’s experience.

Several entertainment and media players — companies such as NBCUniversal, Time Warner’s Turner, Viacom, and, more recently, Disney — have reimagined their advertising sales capabilities to take better advantage of their audience scale across brands and screens through new combinations of data, technology, and advertising products. This approach is also enabling these companies to move away from their historical focus of selling specific shows, dayparts, networks, and brands, and toward selling fan-based segments. Over time, this should lead to fewer but higher-impact ad executions, less clutter, and less waste — benefiting fans, marketers, and the media properties.

Given the realities of user fragmentation, companies have to better understand the behavior of their fans beyond their own properties. NBCUniversal has built a strategic network of digital partners that includes AOL, Vox, BuzzFeed, Snapchat, and, most recently, Apple’s News app to further scale its sales and technology capabilities and extend the depth of its fan communities. These partnerships enable NBCUniversal to sell advertising packages associated with its premium content that incorporate some inventory from each of these partners. For example, NBCUniversal has developed a version of its singing contest *The Voice* for Snapchat, which involves integrating relevant Snapchat inventory for *The Voice* (e.g., filters, lenses, Snap ads) into the mobile- or video-centric solutions that NBCUniversal offers marketers.

Following fan passions creates a natural pathway to identifying new revenue opportunities for E&M companies — especially live events, which millennials find particularly compelling. Condé Nast — with a brand portfolio that includes such stalwarts as *Glamour* (and its Women of the Year Awards franchise) and newcomers such as *Pitchfork,* which specializes in music festivals — views live events as an attractive mechanism by which to bring leading personalities together with avid fans while increasing its revenues. The potential benefits: more revenue via sponsorship and ticket sales, new sources of first-party data that support fan development efforts for its brands, better solutions for advertisers through improvements to activation, and stronger social distribution and fan recruitment achieved by tapping into avid fans' social networks.

With advertisers as well as distribution partners, sales teams must act more like strategic consultants than traditional sellers to design and execute the collaboration models and client-oriented solutions required by working with third parties. Internally, they need to team more seamlessly across functions. In most cases, these requirements will profoundly change the profile of what constitutes the ideal sales leader and sales team. How well companies execute this transformation of the sales function will play a decisive role in their future success.

Operations

The fifth and final key function E&M companies will have to pursue involves operations. The highest-performing companies tightly link revenue and cost agendas. As this industry transitions to a direct-to-consumer world, senior executives need to (1) focus on what they do best in terms of serving fans, (2) align their cost structure, and (3) organize their operations accordingly. To win with fans, E&M companies must get fit for growth — growth that is both profitable and sustainable.

Reallocating resources in order to grow is a difficult task that requires making tough choices and wrenching trade-offs. Will these changes make a difference for fans? Answering this question has to be the starting point for identifying any significant alterations or improvements to company operations. Not everything companies do creates meaningful differentiation with fans or, secondarily, with marketing or distribution partners.

Today, brands and products that are not heavily populated by avid fans are essentially commodities. Consider the many zombie pay-TV networks with low ratings, sustained primarily by an aging video bundle that fewer distributors and consumers appear prepared to support.

Going forward, the preferential economics of fan-centric businesses combined with the necessity for both better internal collaboration within company portfolios and more holistic external relationships with partners will compel E&M companies to structure their operations in new ways. Business processes across the enterprise can be designed to optimize both the cost-to-serve and fan satisfaction, avoiding overserving casual users and underserving loyal fans. Any activity that does not demonstrably improve fan value should be as lean and efficient as possible and is therefore a potential candidate for automation, consolidation, or outsourcing.

Today's fast-changing E&M landscape further rewards companies with superior flexibility and speed. All of these factors will drive companies to pursue operational improvements in two areas: (1) process innovation and clustering of similar activities to increase fan scale and optimize variable costs in such areas as sales, marketing, product development, and production; and (2) centralization, outsourcing, and portfolio rationalization designed to attack fixed costs in areas such as G&A expenses and IT.

Future of Fans

Even in a period of disruption, some realities endure. The most valuable constituents in the E&M industry are the active, loyal, and passionate fans. As the industry transforms in response to the direct-to-consumer model, those companies that fully embrace a fan-centric approach to their business, functions, and operating culture will emerge as the new leaders. +

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Christopher Vollmer
christopher.vollmer@pwc.com
is PwC's global advisory leader for entertainment and media. He focuses on developing strategies for revenue growth, building digital businesses, and creating innovative user experiences for leading companies across media and technology for Strategy&, PwC's strategy consulting business. Based in New York, he is a principal with PwC US.